



## SEQUESTER REVISIONS IN [HR 8](#)

- Delays the date of the FY 13 sequester order by two months, from January 2, 2013 to March 1, 2013.
- Reduces the total amount of the sequester by \$24 billion, reducing the total from \$1.2 trillion to \$1.176 trillion. This \$24 billion reduction comes from reducing the Fiscal Year 2013 sequester from \$109.33 billion to \$85.33 billion.
- Pays for this \$24 billion reduction 50% through spending cuts and 50% by increased revenues. It reduces the discretionary spending caps by \$12 billion and raises revenues from a provision concerning Roth IRAs by \$12 billion.
- The \$12 billion in discretionary cuts is achieved by cutting defense spending by \$6 billion and nondefense discretionary (NDD) spending by \$6 billion. This \$12 billion cut is achieved by reducing the current discretionary cap over two years for both defense and NDD. The caps are cut by \$2 billion each in FY 13 and by \$4 billion each in FY 14.
- For FY 13 ONLY, the discretionary spending caps revert to the original split between “security” and “nonsecurity”. The Budget Control Act had originally set separate spending caps for “Security” (which included not just DOD but also discretionary appropriations for the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account and all budget accounts in budget function 150 (international affairs)) and “nonsecurity”. The failure of the Supercommittee automatically redefined those categories so that “security” is now just DoD and nonsecurity (nondefense discretionary (NDD)) is everything else.
- The reason for is partly to deal with the fact that under the current FY 13 CR the defense level is \$10 billion above the BCA cap and the NDD level is \$10 billion below. Reverting to the original security/nonsecurity split, even after the cap reductions set for FY 13, results in nonsecurity spending under the current CR

still being \$3 billion below the new lower cap on an annualized basis (see footnote “g” in CBO’s [Estimate of the Budgetary Effects of H.R. 8, the American Taxpayer Relief Act of 2012, as passed by the Senate on January 1, 2013](#)) and security spending now \$7 billion above the cap. The bill delays any sequestration resulting from breaching the FY 13 cap until March 27 (to coincide with the expiration of the CR). Under the BCA, such budget cap breach sequestration occurs within 15 calendar days after Congress adjourns.

- If the BCA sequester takes place in FY 13, instead of a total cut of \$109 billion it would now be \$85.33 billion due to the \$24 billion reduction in the sequester cut. The remainder of the current sequestration process remains unchanged. Half of that would be defense (\$42.67 billion) and half from nondefense. As under the BCA, part of the nondefense cuts come from non-exempt mandatory spending (2% Medicare provider reimbursement cuts, etc.).
- Thus, the actual percentage cut for NDD (which OMB had projected at 8.2%) will be smaller. CEF has calculated that the new percentage cut will be 5.9%. However, since that cut will be from only seven months of spending left in the fiscal year instead of nine months, proportionately it will have about the same real impact. However, since education programs other than Impact Aid and Head Start are forwarded funded, none of those funds would yet have been spent, so the 5.9% cut would come out of the entire year’s funding, not just 7 months of funding. CEF projects that the cut to nonexempt domestic mandatory spending will be 5.5%

### **NONDEFENSE FUNCTION REDUCTION<sup>i</sup>** (Dollars in billions)

	<u>Discretionary</u>	<u>Direct Spending</u>	<u>Total</u>
<b>1. Total reduction, excluding savings from Medicare 2% limit:</b>			
Medicare base subject to 2% limit		554.265	
Total nondefense function reduction			42.667
Reduce Medicare by 2%			<u>-11.085</u>
Non-Medicare reduction amounts			31.582
<b>2. Allocate non-Medicare reduction:</b>			
Total base for allocating reduction	499.000	627.567	1,126.567
Exclude Medicare (portion subject to 2% limit)		<u>-554.265</u>	<u>-554.265</u>
Non-Medicare base	499.000	73.302	572.302
Percentage allocation of non-Medicare base	87.19%	12.81%	
Non-Medicare reduction amounts	27.536	4.046	31.582
Percentage allocation of non-Medicare reduction	87.19%	12.81%	
<b>3. Savings from 2% limit on sequestration of certain health programs</b>			

Certain health programs sequestrable base		1.344	
Reduce other health programs by 2%		-0.027	
<b>4. Sequestration percentages calculation:</b>			
Remaining reduction amounts	27.536	4.019	
Savings from uniform percentage reduction:			
From 5.5% increase in student loan fee		0.071	
From remaining sequestrable budget accounts	27.536	3.948	
Sequestrable base for uniform percentage reduction	463.465	71.958	
<b>Sequestration percentage</b>	<b>5.9%</b>	<b>5.5%</b>	
<b>Summary of reductions:</b>			
2% sequestration of Medicare		11.085	
2% limit on sequestration of other health programs		0.027	
Student loan fee increase		0.071	
Uniform percentage reduction	27.344	3.948	
Rounding	0.192	0.0	
<b>Total reduction</b>	<b>27.536</b>	<b>15.131</b>	<b>42.667</b>

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<sup>i</sup> CEF calculations based on revised FY 13 sequester level of \$85.33 billion using OMB methodology in [OMB's Report Pursuant to the Sequestration Transparency Act of 2012](#).